

Message Text

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ACTION EB-08

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C O N F I D E N T I A L QUITO 6015

E.O. 11652: GDS

TAGS: EFIN, EC

SUBJECT: GOE EXTERNAL DEBT REFINANCING

REF: QUITO 4946

1. THE REFTEL DESCRIBES THE GOE'S EFFORTS TO REFINANCE THROUGH A CITIBANK/BANK OF AMERICA SYNDICATED LOAN A LARGE PORTION OF ECUADOR'S PUBLIC EXTERNAL DEBT. TO DATE, THE GOE HAS NOT CONCLUDED AN AGREEMENT WITH THE TWO BANKS, IN PART DUE TO THE RECENT COUNTEROFFER BY THE INVESTMENT FIRM LOEB RHOADES TO REFINANCE A PORTION OF THE DEBT. APPARENTLY THE GOE HAS BEEN PLAYING THE OFFERS AGAINST EACH OTHER.

2. CITIBANK/BANK OF AMERICA ARE NOW OFFERING A 10-YEAR LOAN, AT ONE PERCENT OVER LIBOR, WITH A THREE-YEAR GRACE PERIOD. OTHER CHARGES INCLUDE ONE-TIME UP FRONT COMMITMENT AND MANAGEMENT FEES OF ONE-HALF PERCENT EACH. LOEB RHOADES HAS MATCHED THE CITIBANK/BANK OF AMERICA OFFER, WITH THE ADDED SWEETENER OF AN INTEREST FEE OF SEVEN-EIGHTHS PERCENT OVER LIBOR FOR THE NINTH AND TENTH YEARS. CITIBANK AND BANK OF AMERICA STATE THAT THEY CANNOT MATCH THE LOEB RHOADES OFFER, CLAIMING THAT IT DOES NOT REFLECT MARKET CONDITIONS. IN ANY CASE, THE SAVINGS TO THE GOE FROM THE LOEB RHOADES PROPOSAL COMPARED WITH THE CITIBANK/

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BANK OF AMERICA OFFER IS ONLY ABOUT \$200,000, AND CITIBANK/BANK OF AMERICA ARE PULLING OUT ALL STOPS TO DO THE RE-FINANCING. BOTH BANKS HAVE REMINDED THE GOE OF THEIR LARGE STAFFS AND SIGNIFICANT REGISTERED FOREIGN CAPITAL, IN CONTRAST WITH LOEB RHOADES WHICH HAS NO REGISTERED CAPITAL IN ECUADOR AND ONLY ONE REPRESENTATIVE WHO OPERATES OUT OF A HOTEL ROOM DURING HIS FREQUENT VISITS

TO ECUADOR.

3. EVIDENTLY THE GOE IS NOW THINKING OF TAKING OUT A LOAN OF UP TO \$350 MILLION FROM CITIBANK/BANK OF AMERICA, WITH EACH BANK LENDING \$50 MILLION OF ITS OWN CAPITAL AND SYNDICATING ANOTHER \$125 MILLION. THE GOE MAY ALSO TAKE OUT A LOAN OF UP TO \$200 MILLION WITH LOEB RHOADES TO REFINANCE PREVIOUS LOANS FOR MILITARY PURCHASES, THE LARGE MAJORITY OF WHICH ARE HIDDEN AND NOT LISTED IN PUBLIC FINANCIAL STATEMENTS. CITIBANK AND BANK OF AMERICA WILL NOT DEAL WITH LOANS DESIGNATED FOR STRICTLY MILITARY USES. PRIOR TO ITS RECENT LENDING OF \$80 MILLION TO THE GOE FOR ROADBUILDING PROJECTS NEAR THE PERUVIAN FRONTIER, CITIBANK REQUIRED A CERTIFICATION FROM THE GOE THAT NONE OF THE MONEY WOULD GO TOWARD MILITARY PURCHASES. WHILE THE ROADS WILL INEVITABLY BE OF STRATEGIC MILITARY IMPORTANCE, CITIBANK CAN RIGHTFULLY CLAIM THAT THE ROADS WILL BE USED BY THE CIVILIAN SECTOR AS WELL.

4. THE LOCAL CITIBANK/BANK OF AMERICA REPRESENTATIVES WARN THAT IF THE GOE DOES NOT ACT SOON TO TAKE ADVANTAGE OF THE CURRENT FAVORABLE BORROWING CONDITIONS ON THE INTERNATIONAL MONEY MARKETS, THE GOLDEN OPPORTUNITY TO SIGNIFICANTLY IMPROVE THE COUNTRY'S EXTERNAL DEBT SERVICING POSITION MAY PASS.
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